SEPTEMBER 1990

INCENTIVE

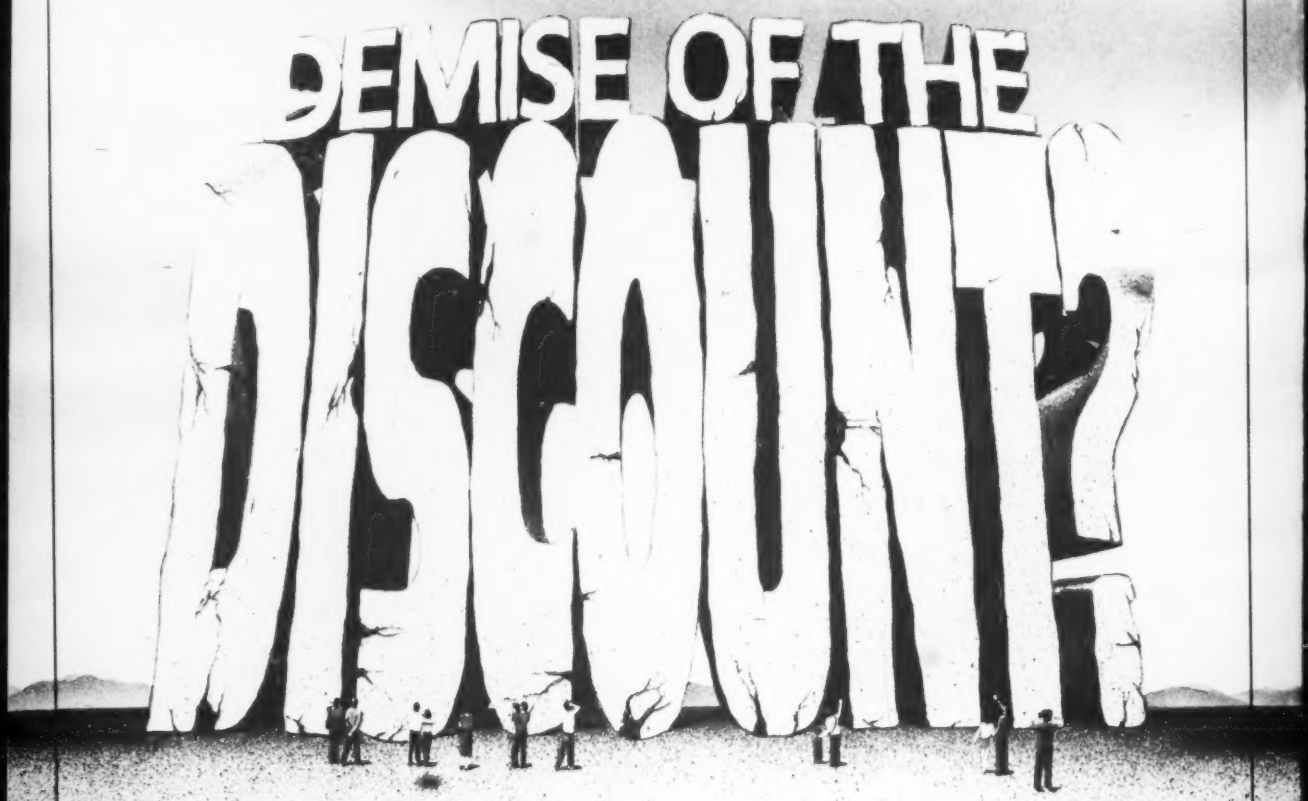
MANAGING AND MARKETING THROUGH MOTIVATION

SELF-ESTEEM SEMINARS: **DO THEY MOTIVATE?**

HOW TO MEASURE **CUSTOMER SERVICE**

NEW BUILDING BLOCKS FOR **BRAND LOYALTY**

DEMISE OF THE DISCOUNT?



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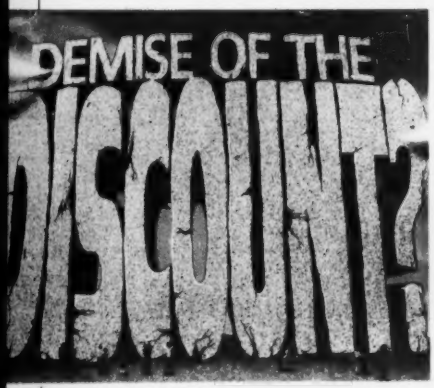

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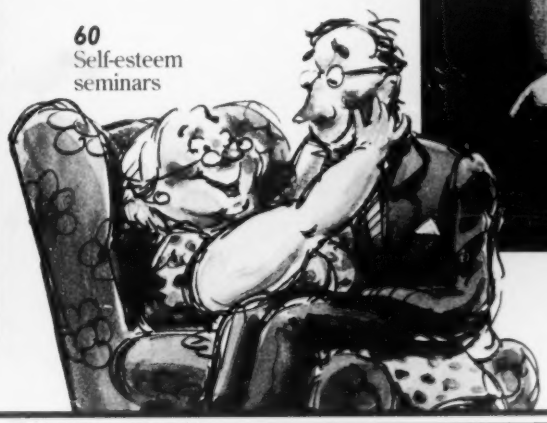

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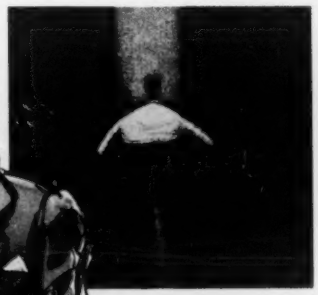

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Cover Illustration: Jeff Lynch

INCENTIVE (formerly Incentive Marketing/Incorporating Incentive Travel) covers the methods used by organizations to motivate customers at all levels to buy and employees to work more effectively.

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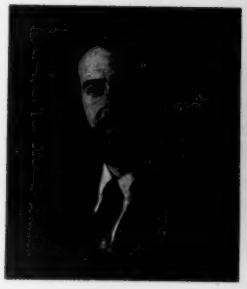
FROM THE EDITOR

WHITHER THE DISCOUNT

BY BRUCE BOLGER



The demise of the discount? This provocative question, addressed in this month's cover story, clearly overstates the case. Obviously, there is no immediate end in sight for the business world's most powerful tool for stimulating sales. But, as the article suggests, today's discounting strategies have run into trouble and gradually may be replaced by new strategies that more clearly fit the needs and psychologies of consumers.

The dangers of the old discounting strategy became apparent to department stores and car makers in the 1980's. Department stores traditionally based their pricing on a two-tiered strategy: setting their markups high at the start of each selling season and slashing them at the end. Auto makers followed a similar approach: confronting consumers with sticker shock at the start of the model year and then luring them with rebates and interest rate reductions on loans.

Does the strategy work? You already know the answer. Department store customers have become so spoiled by discounts, they don't even wait for the traditional sales. They go to their favorite mass merchandisers, who offer the lowest prices year-round. Car buyers have no alternative source for cars, so they flock to their local dealers only when car makers offer particularly good price inducements or, more rarely, a particularly hot product.

What are the alternatives to discounting? This month's cover story gives you ideas from the experts. Here's my perspective: Clearly, consumers respond to a year-round low pricing strategy such as the one mass merchandisers follow. Who wouldn't? But does that mean that only companies who offer rock-bottom prices will survive? No. Research, such as that conducted by the Strategic Planning Institute, Cambridge, Mass., clearly shows that customers will pay more—on average 10 percent more—for products with high perceived quality.

So, the real answer lies in a year-round "value" strategy using regular but selective "specials" to reinforce the value message. Under this scenario, companies eschew the across-the-board discount approach. Instead, they turn to added-value promotions that offer consumers the chance to get two for the price of one, win valuable prizes, or get selected products tied to a current fad, popular film, sport or music group.

True, the old discount strategy offers the benefit of simplicity. The new one calls for complex management skills—like balancing costs and service—plus the imagination and resolve needed to carry out value-added promotions.

Bruce Bolger

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FACTS SURVEY

SALES INCENTIVES

Executives plan to spend bigger bucks to reward their salespeople this year.

American marketers may well be on the way toward pumping half a billion dollars more into sales-force incentives this year. That's the chief message in **Incentive**'s most recent survey, in which executives predicted pouring about $5.7 billion into incentives in 1990.

The projection represents a 9.6 percent increase over 1989's incentive budget of $5.23 billion, and is powered primarily by an expected increase in travel spending, which soared 12.9 percent in respondents' estimates. Expenditures for merchandise, meanwhile, were predicted to rise by 5.8 percent this year.

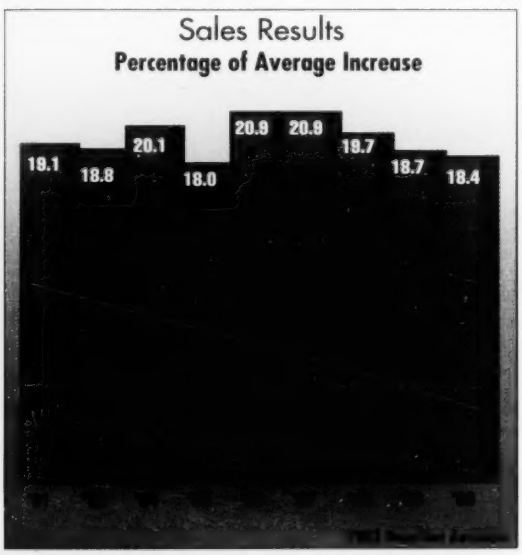
Some more positive indicators: More than two out of five companies have inked bigger budgets for sales incentives this year; 46 percent of respondents plan to spend more for merchandise and 41 percent plan to pay more for trips. Only 7 percent indicated they would spend less for merchandise, and 9 percent said they would tighten their belts on travel awards. All figures emerge from a survey in which 262 executives divulged their 1989 expenditures and 1990 budget plans.

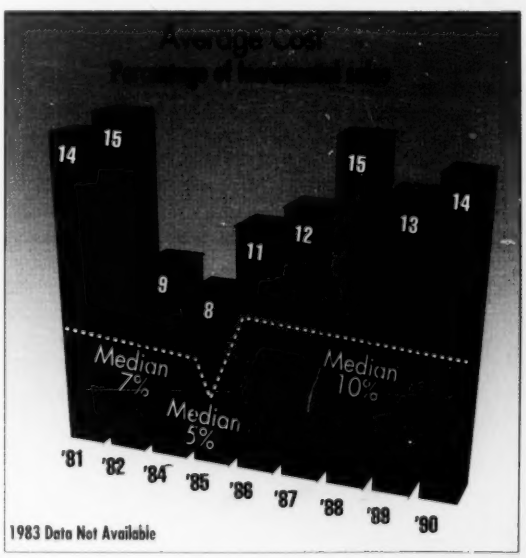
Results show that the anticipated spending increases certainly weren't due to higher costs. The average cost of running an incentive campaign has risen by only 1 percent, they said, now taking up 14 percent of incremental sales. The median cost of incentive programs still holds at 10 percent of incremental sales.

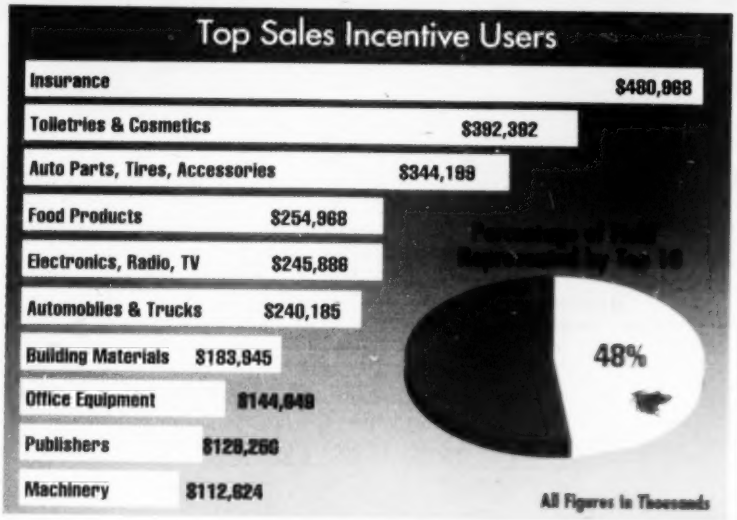
Also, the average sales increases netted by incentive programs remained about the same, inching down by three-tenths of a point, to 18.4 percent from 18.7 percent. Among other things, respondents report, that means it's taking a few more winners to achieve sales objectives: Qualification rates climbed from 37 to 40 percent. Thirty percent of participants were qualifying for travel awards, up from 27 percent last year, while 47 percent were winning merchandise (up 1 percent).

All these salespeople were winning awards for hitting a number of key objectives. The most popular one, naturally, is dollars, expressed as "increased overall volume." That motive, however, has lost ground in almost every survey in recent years, and in this one it fell another four points, from 63 percent to an all-time low of 59 percent. Introducing new products—another oft-stated objective—continued to gain strength; it is favored by 47 percent of those surveyed, followed by the goal of selling new accounts, preferred by 44 percent. The seven other listed objectives (see chart) complete the spectrum of marketing needs.

Few companies concentrate on one objective at a time; this year's executives listed an average of three different goals per program. Likewise, the majority of respondents used an incentive campaign to push more than one product or service. Forty-eight percent of respondents target selected groups of products, while 40 percent support







their entire lines. Only 12 percent said they zero in on single products.

The frequency of incentive campaigns has remained about the same. Surveyed users continue to run a median of two programs a year (especially when they offer merchandise prizes or a combination of merchandise and travel awards); if users offer travel awards exclusively, they run an average of one program a year.

Certainly the range and mix of awards varies widely. Travel remains the award of choice—by 36 percent of respondents—with merchandise a close second at 33 percent. Cash is preferred by 31 percent of the surveyed marketers.

The survey indicates that the average cost of a merchandise prize among this year's respondents is $337, down from $370 in the 1989 survey; the median stayed at $100. Travel buyers have seen that average drop from $2,458 to $2,020, with the median also declining from $2,000 to $1,750.

When it comes to choosing the right awards, the cash vs. merchandise vs. travel argument rages on. Most cash users, for example, also employ merchandise or travel awards or both, but they still appear drawn to the greenbacks, apparently acceding to the stated preferences of salespeople, many of whom speak up for cash if they are asked.

"Day in, day out, cash is still the item that turns most people on," declares James L. Call II, senior vice president of marketing at R. L. Herndon & Associates, an Indianapolis insurance firm. "It's not that I agree; however, as a marketing executive, it's my job to get the results my company needs. Therefore, if I can't be creative enough to turn them on with something special, I stick with cash. God knows, I try with merchandise and travel."

Eugene T. Glon, executive vice president of Mortite Inc., a Kankakee, Ill., hardware firm, strongly believes that cash "gives winners the option of doing whatever they prefer or choose without being locked into a canned program." An Ohio food executive agrees: "Cash is the fairest and most acceptable incentive for our salespeople. There isn't enough flexibility in merchandise programs."

While cash has its advocates, the other 69 percent of respondents favoring non-cash alternatives took a different stance—mainly, that prizes are more easily dramatized and promoted. Whether they know it or not, these users said, salespeople respond better to non-cash motivation.

According to Chris Rollins, director of advertising and public relations at Frederick Underwriters Inc., Frede-

Types of awards

Single premium or group of related items	56%
Individual travel award	43%
Merchandise selection from incentive house	29%
Group travel award	34%
Own catalogue	16%

Merchandise suppliers

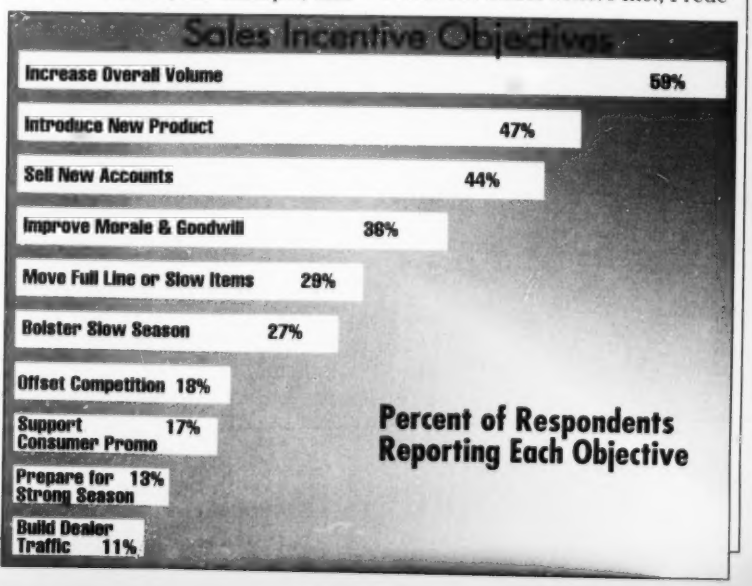
Wholesaler or premium jobber	45%
Direct from manufacturer	44%
Full-service incentive house	22%
Manufacturers' representative	29%

Travel suppliers

Make own arrangements	59%
Full-service incentive house	28%
Travel carrier or hotel	19%
Travel/tour wholesaler	19%

Final buying decision

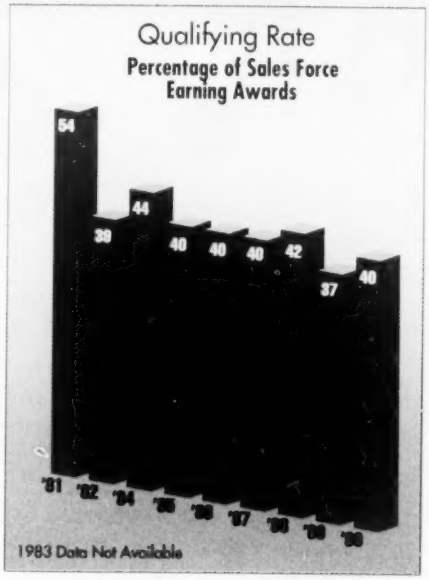
President, CEO, executive vice president, general manager	57%
Director of sales or marketing	34%
Director of advertising or sales promotion	5%
Product manager or merchandising manager	4%


Sales Incentive Objectives
Increase Overall Volume 59%
Introduce New Product 47%
Sell New Accounts 44%
Improve Morale & Goodwill 38%
Move Full Line or Slow Items 29%
Bolster Slow Season 27%
Offset Competition 18%
Support Consumer Promo 17%
Prepare for Strong Season 13%
Build Dealer Traffic 11%
Percent of Respondents Reporting Each Objective

rick, Md., "Cash is not a genuine motivator. Travel has a certain magic, allure, the ability to strike a spark." A mobile-home manufacturer in Kentucky sees a different kind of magic: "Cash is paid for working. Travel forces our heavy hitters to take time off, which is good, because they are so committed you practically have to make some salespeople take time off."

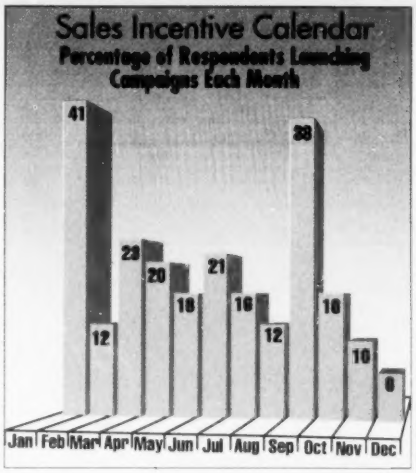
The personal relationships forged by group travel have a special attraction for some executives. Robert E. Keith, president of Affiliated Paper Cos., Tuscaloosa, Ala., finds travel a good motivator because "world-class travel is an item many would not spend personal monies for. It provides a product otherwise not experienced. From a business standpoint, it provides a forum for corporate executives to build on relationships through first-class shared experiences and time together—lasting value."

Demographics also play a role in the award decision-making, claim other respondents. Bruce W. Ingraham, vice president of sales for Dolly Inc., a Tipp City, Ohio, manufacturer of toys and nursery decor, explains, "I have mostly younger sales reps (20 to 40 years old), and the lure of travel is greater than merchandise. A few of my older reps are well traveled and for them it's the merchandise, or more importantly, the recognition that is the prime motivator. I will never, never use cash—there is no redeeming value or long-term benefit whatsoever."



Merchandise, too, has its champions. James L. Rose, president of Uniscarch Inc., an Orange, Calif.-based executive-search company, feels that "because people can see and touch the merchandise as the contest is running, it creates more excitement and better production in the long run." Merchandise, a brewer executive adds, "is in evidence long after cash and travel awards are only a memory, and usually merchandise awards are ones that the salesperson would not normally buy."

A final word on merchandise, courtesy of a southeastern distributor who is boosting his merchandise incentive budget: "Once cash is spent, the relationship of the winner and company is no longer visible. Awards from catalogues last a long time and main-



tain a relationship."

In this year's **Incentive** survey, respondents' salespeople spanned all segments. Company-employed salespeople were the largest group, targeted in incentive thrusts by 69 percent of the firms. Wholesaler or jobber salespeople followed at 29 percent, and independent sales reps at 28. Retail sales personnel were the objects of 18 percent of users' incentive campaigns, while direct sellers (door-to-door or party-plan) figured in only 2 percent of the marketers' efforts.

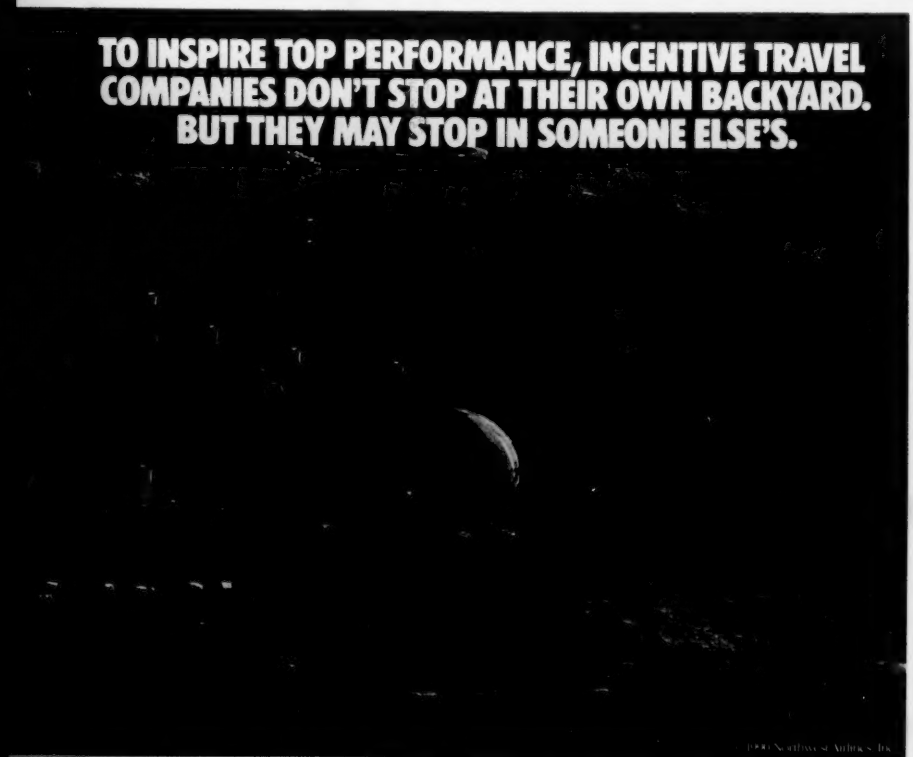
To promote to these people, survey respondents claimed they added an average of 22 percent (up from 18 percent) on top of the merchandise or travel purchases—thus, for every $1,000 spent for awards, another $220 was needed to sell the program.

Selecting awards and promoting programs are two critical roles performed by incentive planners, but full-blown programs require much more in the way of legwork. Respondents noted that the incentive-planning process lasts about as long as the qualifying sales period, sometimes longer. Users of merchandise programs took 15 weeks to plan the campaign and another 15 weeks to run it. Travel programs take longer: Preparation averaged 28 weeks, selling time 27 weeks.

What measurements are most commonly applied to sales incentive programs? About 48 percent of surveyed executives compared sales quotas to the previous year's, and 39 percent tied quotas to a sales forecast—which may or not have a direct relationship to the past year's results. The remaining 13 percent used an immediate previous period as the quota base.

This year, executives said they started doling out award credits when salespeople reached an average of 97 percent of quota—about 4 points higher than in last year's survey. Maximum credit was reached at an average of 116 percent of quota—when there was another qualification level.

Respondents named five ways in which overall program performance is measured. The most common measure is total units or dollars sold, a benchmark employed by 67 percent of all firms. Percentage of salespeople reaching quota is the preferred measure of 44 percent. Less popular, but still important, criteria are increased market share, 29 percent; profit on incremental sales, 24 percent; and branch or district performance, 12 percent.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Of all the places you could send your top performers, you might not think of a Victorian garden in the hills of Scotland. A Japanese tea garden. Or the water garden that inspired Monet.

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